

H1 2022

Warehouse and Industrial Market

Russia | Moscow

Table 1
Key market indicators
Source: Nikoliers

	H1 2020	H1 2021	H1 2022
Total supply, thousand sq m	17,603	18,435	20,232
Completions, thousand sq m	409	332	580
Total take-up, thousand sq m	514	921	553
Vacancy rate, %	3.1%	2.8%	1.8%
Rental rate, RUB/sq m/year*	4,100	4,290	5,800

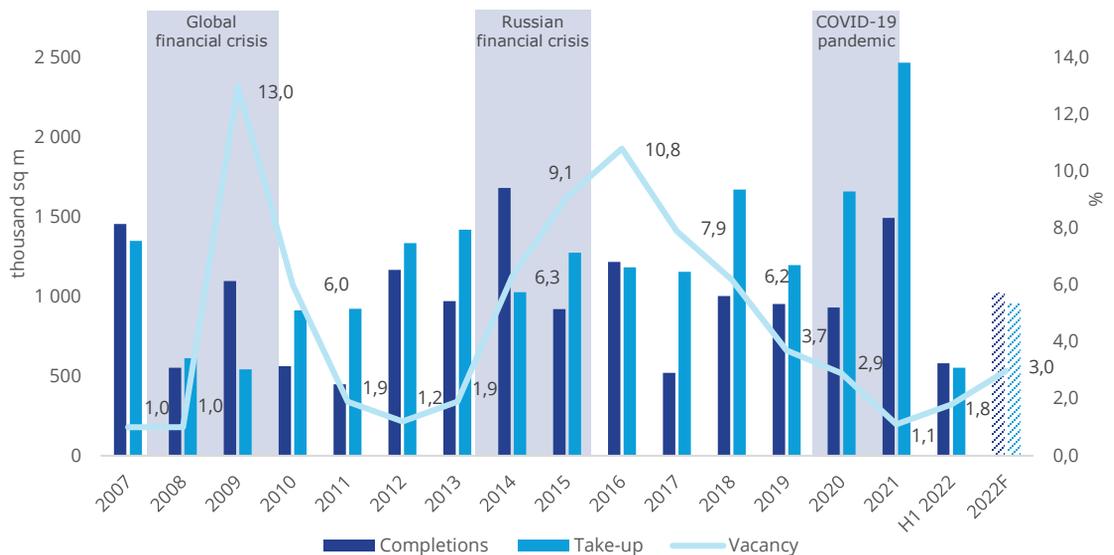
*Excluding VAT (20%) and OPEX

The changes caused by the current geopolitical and economic situation in the country were reflected in the results of H1 2022. Thus, for the last six months the vacancy rate increased by 0.9 p.p. This indicator does not include sublease supply. The total demand volume decreased by 40% in comparison to the same period last year. This result correlates with the output of the "covid" period during H1 2020. Against this background, rental rates began to adjust. According to the results of the Q2 2022, the weighted average rate fell by 6.5% compared to the value of the Q1 2022 and amounted to RUB5,800/sq m/year excluding VAT and OPEX.

The overall situation in the warehouse market is characterized by a high degree of uncertainty for business. Such market conditions are caused by the changes of supply chains, the effects of sanctions and the suspension of business of some foreign companies. The market has just begun to respond to external factors, and the duration and volatility of these changes will depend on several factors. Important role in the market development plays global economical and political affairs as well as the speed with which market players can adapt to new conditions.

Chart 1
Dynamics of the main market indicators
in crisis periods

Source: Nikoliers





Supply

In H1 2022 the total supply on the warehouse market of the Moscow region has overcome 20 mln sq m. This was achieved by significant volume of completions, which amounted to 580,000 sq m.

Despite the large volume of completed projects in the first half of the year, we expect total indicator of new supply in 2022 to reach 1 mln sq m. This result is comparable to the completions of 2020. Last year was exceptional in terms of transaction volumes, particularly built-to-suit contracts, which in turn constitute a significant part of future supply. However, taking into consideration the current realities, the issue of implementation and timing of

construction of several planned projects remains open. The developer might have some difficulties with the completion of built-to-suit project on the agreed terms due to the lack of components. At the same time, occupiers revise plans for expansion considering the disruption of supply chains. For these reasons we expect some projects may be suspended or postponed, so that the volume and terms of built-to-suit contracts might be revised.

Chart 2
Warehouse completions:
BTS vs speculative, 2014 — H1 2022.

Source: Nikoliers



Demand

In H1 2022 the volume of total take-up in the Moscow region was 553,000 sq m, which is 40% lower than in the first half of last year. Around 65% of the total demand falls in Q1 2022, which indicates a trend towards a decrease in business activity. Besides, there is a trend to decline the share of built-to-suit deals. While in 2021 the share of such contracts in the total volume of demand was 43%, at the end of the half-year this indicator dropped to 33%. According to our forecasts, this trend will continue in H2 2022.

About half of the demand for the past period was formed by the activity of online retailers (44%). The share of distributors was 22% in the total volume of demand. Next key drivers of demand are manufacturers and logistics companies, which accounted for 12% and 11%. However, this configuration may soon change due to difficulties with logistics and inaccessibility of the most of foreign goods.

Demand for sublease increased because of the growth of supply on the market and the nontransparency of the current market condition. Now the volume of transactions in this format is about 80,000 sq m, but this indicator will continue to grow due to the fact that more space start to be offered for sublease at below-market conditions.

Chart 3
Distribution of take-up by
business sector in the Moscow
region, H1 2022

Source: Nikoliers

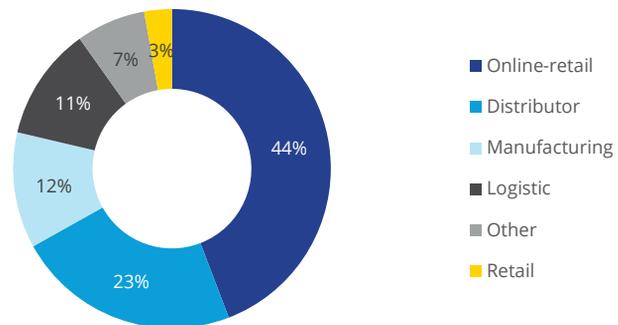


Table 2
Key deals in Moscow region, H1 2022

Occupier	Sector	Deal type	Size, sq m	Property name
AliExpress	Online-retail	BTS-lease	180,000	A2 Obukhovo
Prosveshenie	Manufacturing	Sublease	43,900	Tiera
Ozon Express	Online-retail	Lease	24,301	Multicold
Armtek	Distributors	Lease	20,587	Sloboda Domodedovo
Wildberries	Online-retail	Lease	20,486	Belaya Dacha
Resanta	Distributors	Sublease	18,500	PNK Park Domodedovo

Vacancy and rental rates

The gradual increase in the vacancy rate to 1.8% in the Moscow region was the result of significant changes in the market in H1 2022. However, the key increase in space was observed at the sublease market, where the current available supply varies in the range of 300,000-350,000 sq m, thus replenishing vacancy rate with the additional 1.5-2.0 p.p. The reason for that is the reduction of volume of stored goods, so that some part of the occupied warehouse space is no longer used. There are companies who have revised their plans for inventory turnover, thus intending to offer part of their space on sublease with the further transfer of lease agreement rights.

In terms of commercial conditions, the market is gradually stagnating in terms of base rental rates, as evidenced by the decline in the weighted average base rental rate in H1 2022 to RUB5,800/sq m/year. The average rental rate decreased by 6.5% compared to Q1 2022 results. This trend will be relevant for H2 2022, so the weighted average market indicator may fall to the level of RUB5,300-5,500/sq m/year by the end of this year.

Chart 4
Geographic distribution of vacant warehouse spaces in the Moscow region, H1 2022

Source: Nikoliers

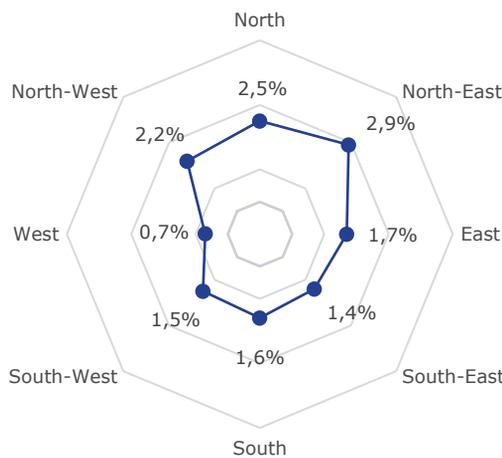
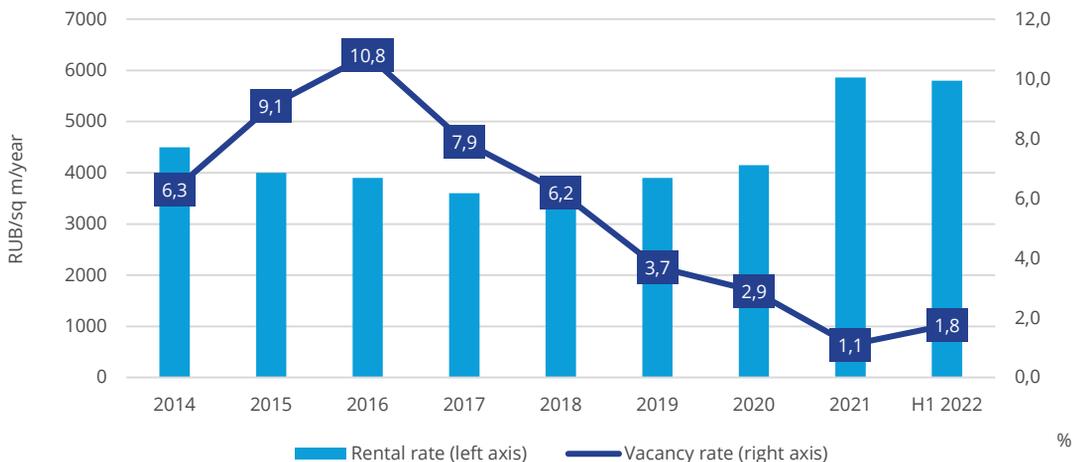


Chart 5
Dynamics of vacancy and rental rates, 2014 — H1 2022

Source: Nikoliers





Trends and forecasts

- We are seeing an increase in demand for specific types of services for point-to-point business needs. For example, many companies in the current situation prefer to completely or partially abandon their leased warehouse space, transferring these functions to 3PL operators. This decision of companies is caused by the instability of import shipments and difficulty in predicting the volume of goods. With the disruption of logistics chains, tenants mitigate the risks of downtime.
- There is also a growing trend of demand on the part of data centre service providers, which is taking place against the backdrop of the mass transition to domestic servers. This trend is also emphasized by key market players: some developers are now looking for efficient ways to organize data centres.
- Over the past six months, there has been an increased interest in such formats as self-storage and light industrial. The first offers space for individual storage, while the second offers small industrial-warehouse premises.
- The cost of transportation has increased due to the disruption of the usual logistics chains. At the same time, sanctions and counter-sanctions imposed on goods and companies make it difficult to restore and develop routes for imported goods. There is a reduction in demand from large federal retailers.
- Construction costs are rising and there are difficulties in importing technological and engineering solutions, so many warehouse facilities are being revised at the design stage to simplify their specifications. Developers are focused on finding new counterparties among domestic companies to establish supply chains and continuous supply of engineering equipment.
- Grocery retail in a budget format, household appliances of domestic production or from China and manufacturers of other goods occupy a leading position today.

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